

Marli Gonan Božac; University Juraj Dobrila - Pula
Mislav Ante Omazić; Faculty of Economics and Business - Zagreb
Marijan Cingula; Faculty of Economics and Business - Zagreb

Corporate Social Responsibility or Corporate Governance – What's Coming First?

Zagreb, November 3rd

CSR or CG – What's Coming First?

- Hypothetic question *that* opens real dilemma for modern companies and their influence on society
- *The current crisis means that contemporary business model will have to change* and that calls for new role of corporation *since* it became most powerful institution of modern society
- CSR is context based way of progressive acting, *and it is defined by* particular behavior of some companies and their representatives
- CG is rather firmly framed on national level and globally

CG vs. CSR

- *There is a strong mutual interference between two categories of **organisational** behavior **both are integrated within business model and interconnected.***
- ***CG is essential part of CSR but not all of it.** CG is result of socially responsible activities but simultaneously the higher level of development of CG in leading business sectors can significantly improve the social responsibility, in general*

Corporate Governance 1

- *A multi-functional set of processes, affecting the way a company is administrated and controlled*
- *The mix of internal and external factors building the relationship among owners and professional managers who have mutual responsibility for the corporation and for the stakeholders*

Corporate Governance 2

- *The main internal processes refer to the financial and organizational aspects, while external factors include international and national standards, legal framework and ethical rules*
- *Standardization of corporate governance includes the general principles and specific legal, financial and ethical framework for top level managers in private and public sectors*

Important Documents and Organizations

- *Cadbury Report, Code of Best Practice, London Stock Exchange, 1992*
- *The general principles of corporate governance, OECD, 1999 and 2004*
- *SA 8000 standard, SAI (Social Accountability International)*
- *ISO 26000 (still work in progress)*
- *International Financial Reporting Standards (IFRS)*
- *The European Corporate Governance Institute (ECGI)*
- *The European Confederation of Directors' Associations (ecoDa)*
- *Principles for Business and Principles for Governments Caux Round Table (CRT)*

Human Dilemma

- *Human beings are individuals being prone to violence which is evident in eternal conflicts among social groups (Greek classicists, Thomas Hobbes, Saint Augustin and Herbert Spencer)*
- *People are social, cooperative beings, so individuals need to live inside the community and according to moral principles (Plato, Aristotle and J. J. Rousseau)*

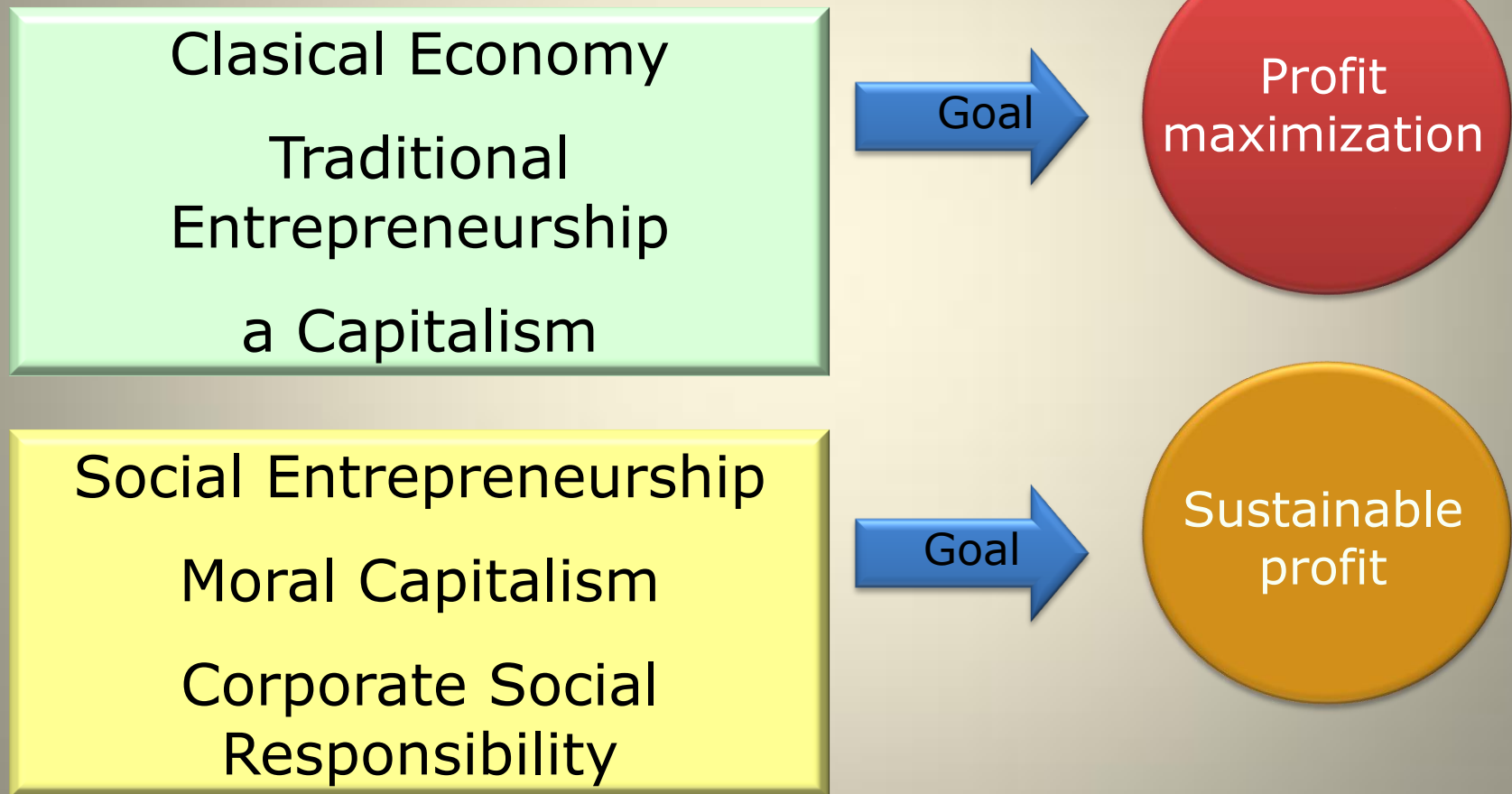
Entrepreneurial Dilemma

- *The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield*

J. B. Say

- *Entrepreneurship is a process through which individuals identify opportunities, allocate resources, and create value. This creation of value is often through the identification of unmet needs or through the identification of opportunities for change.*

Traditional vs. Social Entrepreneurship



OECD Principles

- Ensuring the basis for an effective corporate governance framework
- The rights of shareholders and key ownership functions
- The equitable treatment of shareholders
- The role of stakeholders
- Disclosure and transparency
- The responsibilities of the board

United Nations Norms

- Right to equal opportunity and non-discriminatory treatment
- Right to security of persons
- Rights of workers
- Respect for national sovereignty and human rights
- Consumer protection
- Environmental protection

CSR contributes to:

- **Better** integrated socially sensitive labor market
- **Sustainable** investments in education **through support of** life-long learning
- Improvements in public health
- Better innovation performance in order to resolve existing social problems
- Better image of business and entrepreneurs in society, helping to achieve more favorable attitudes towards entrepreneurship
- Greater **focus** for human rights and poverty reduction
- **Proactive risk management**
- A more rational use of natural resources and more responsible environmental policy

Actions promoted within the EU

- Awareness-raising and best practice exchange
- Support to multi-stakeholder initiatives
- Cooperation **between** Member States
- Consumer information and transparency
- Scientific research
- Education and life-long learning
- SMEs support
- Recognizing the international dimension of CSR

CRT Principles for Business

- The Responsibilities Of Businesses
- The Economic and Social Impact of Business
- Business Behavior
- Respect for Rules
- Support for Multilateral Trade
- Respect for the Environment
- Avoidance of Illicit Operations

CRT Principles for Governments

- Public power is held in trust for the community
- Discourse should guide application of public power
- The Civic Order must not forget its duties to citizens
- Corruption may not be condoned
- Security of persons, individual liberty and ownership of property are the foundation for individual justice
- Justice shall be provided
- General welfare contemplates improving the well-being of individual citizens
- Transparency of government ensures accountability
- Global cooperation advances national welfare

The Sullivan principles 1

- Support universal human rights, particularly those of employees, the communities within which they operate, and the parties with whom companies do business
- Provide equal opportunity for employees at all levels with respect to colour, race, gender, age, ethnicity or religious beliefs, and prevent unacceptable worker treatment such as the exploitation of children, physical punishment, and abuse of women, involuntary servitude, or other forms of abuse
- Respect employees' right to freedom of association
- Provide compensation that enables employees to meet basic needs, and afford them opportunity to improve their skills and capabilities in order to increase their social and economic opportunities

The Sullivan principles 2

- Provide a safe and healthy workplace, protect human health and the environment, and promote sustainable development
- Promote fair competition, respect intellectual and other property rights, and not offer, pay or accept bribes
- Work with governments and communities to improve the quality of life -- educational, cultural, economic and social well being--and provide training and opportunities for workers from disadvantaged backgrounds
- Promote the application of these Principles by those with whom they do business

Different levels of Framework for Socially Responsible Behavior



Conclusion 1

- CG is relatively new approach to the business behavior on strategic level of a company and refers not only to control of business activities, but to owners and other stakeholders relationship as well
- **Good CG is expected to underpin effective and efficient CSR within business entities.**
- National states can use their legal framework for designing proper economic and social systems, but forcing the idea of social responsibility only by national law is not sufficient
- CSR is rather universal approach to business activities and inter-stakeholders' relationship helping in creation of sustainable development on national level and fair business environment globally

Conclusion 2

- International standards and principles introduced by **non** governmental organizations can help a lot in building universal approach to socially responsible behavior, **despite** of national or cultural differences
- Although legal regulations for SMEs are somewhat milder in relation to stock listed corporations, it is still important for the same ethical standards and moral norms to be applied to every entrepreneur
- An individual entrepreneur is less likely to implement global standards on the account of his personal believes and prejudice
- The social responsibility framework should be used to develop social entrepreneurship and to encourage moral business behaviour